

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD  
INVESTMENT COMMITTEE

SUBJECT: Alternative Investments  
Activity Status Report

ITEM NUMBER: 16

ATTACHMENT(S): 2

ACTION: \_\_\_\_\_

DATE OF MEETING: March 3, 1999

INFORMATION: X

PRESENTER(S): Mr. Desrochers

The table below contains Alternative Investment activity for the month of January 1999 and historical information for selected time periods.

	Month Ended 1/31/99	Fiscal Year To Date	Past One Year	Past Three Years	Inception To Date
<b>Commitments:</b>					
Partnerships	300,000,000	712,000,000	1,502,000,000	3,292,495,200	4,771,480,691
Co-Investments	0	0	0	47,000,000	47,000,000
<b>Contributions:</b>					
Partnerships	73,289,981	389,301,025	617,086,433	1,332,834,795	2,346,186,917
Co-Investments	0	0	0	47,000,000	47,000,000
<b>Distributions:</b>					
Cash	59,750,945	195,209,527	421,973,621	882,007,285	1,152,113,076
Stock	9,148,059	37,478,988	79,335,209	300,507,968	430,808,740
<b>Stock Sales</b>	8,338,454	47,402,465	66,865,346	268,422,317	372,957,609

Attachment 1 contains a summary of partnership commitments and capital accounts from the inception of the Alternative Investment program through January 31, 1999.

Attachment 2 contains an executive summary of action taken under delegation of authority for a \$300 million commitment to Madison Dearborn Capital Partners III, L.P.

CalSTRS ALTERNATIVE INVESTMENTS										
PARTNERSHIP COMMITMENTS AND CAPITAL SUMMARIES										
JANUARY 1999										
	Partnerships	Type	Date STRS	Closing	Fund	STRS	Amount	Returned	Net Invested	Income &
			Approved	Date	Size	Commitment	Funded	Capital	Capital	Gain
1	Alpine Technology Partners	VC	Sep-94	Dec-8-94	60,000,000	60,000,000	37,000,000	1,257,680	35,742,320	1,927,015
2	Alta V	VC	Apr-92	May-27-92	159,470,000	20,000,000	20,000,000	6,269,040	13,730,960	23,371,027
3	Alta Communications VI	SS	Apr-96	May-09-96	161,200,000	20,000,000	19,000,000	0	19,000,000	0
4	Alta Communications VII	SS	Jun-98	July-09-98	271,490,000	30,000,000	6,000,000	0	6,000,000	0
5	Austin Ventures V	VC	Jan-97	Jan-16-97	170,000,000	15,000,000	9,000,000	125,599	8,874,401	0
6	Austin Ventures VI	VC	Nov-98	Nov-24-98	320,000,000	22,000,000	1,878,234	0	1,878,234	0
7	Bank Fund III	SS	Jan-93	Jan-22-93	125,000,000	10,000,000	10,000,000	0	10,000,000	6,473,419
8	BCI Growth III	SS	Feb-90	Mar-30-90	135,500,000	15,000,000	15,000,000	13,531,273	1,468,727	12,844,521
9	BCI Growth IV	SS	Mar-95	Oct-25-95	175,253,000	25,000,000	17,771,889	1,409,280	16,362,609	2,724,161
10	Blackstone Capital Partners II	LBO	Oct-93	Nov-03-93	1,271,400,000	75,000,000	68,408,764	17,162,316	51,246,448	31,541,795
11	Blackstone Capital Partners III	LBO	Jun-97	Jun-27-97	3,750,000,000	300,000,000	55,176,631	0	55,176,631	14,566
12	Boston Ventures IIIA	SS	Apr-89	Apr-27-89	286,000,000	35,598,029	35,612,559	30,244,319	5,368,240	35,670,511
13	Boston Ventures IVA	SS	Oct-92	Nov-10-92	515,000,000	55,312,500	49,228,125	35,656,983	13,571,142	40,406,476
14	Boston Ventures V	SS	May-96	Sep-30-96	808,080,000	90,000,000	27,720,662	461,249	27,259,413	6,974,872
15	Candover 1994	LBO	Mar-94	May-18-94	490,000,000	32,900,000	22,991,969	6,660,059	16,331,910	15,139,091
16	Candover 1997	LBO	Nov-97	Dec-10-97	1,411,000,000	150,000,000	25,679,208	0	25,679,208	0
17	Charterhouse Equity Partners	LBO	Jul-89	Jul-27-89	264,900,000	27,160,000	28,160,105	13,506,150	14,653,955	37,025,723
18	Charterhouse Equity Partners II	LBO	Jun-93	Dec-17-93	291,250,000	40,000,000	40,567,797	15,570,412	24,997,385	50,337,143
19	Cornerstone Equity Investor IV	VC	Nov-96	Dec-6-96	550,000,000	40,000,000	16,800,000	923,400	15,876,600	277,249
20	Corporate Partners	SS	Apr-88	Jun-24-88	1,396,000,000	100,000,000	88,428,784	64,974,883	23,453,901	82,288,456
21	CVC European Equity Partners	LBO	Nov-95	Feb-27-96	562,000,000	40,000,000	36,661,709	2,706,501	33,955,208	5,466,838
22	CVC European Equity Partners II	LBO	Apr-98	Jun-03-98	2,500,000,000	300,000,000	57,338,284	0	57,338,284	161,137
23	Domain Partners III	VC	Jan-95	Feb-24-95	125,000,000	10,000,000	9,000,000	400,781	8,599,219	1,406,702
24	ECI 5	LBO	Nov-94	Apr-27-95	128,000,000	16,000,000	14,200,467	3,184,389	11,016,078	7,697,835
25	First Reserve Fund VI	SS	Jan-92	Jan-29-92	184,184,000	25,000,000	25,000,000	10,304,900	14,695,100	15,630,049
26	First Reserve Fund VII	SS	Jan-97	Feb-21-97	243,900,000	25,000,000	18,546,825	1,783,702	16,763,123	2,797,818
27	First Reserve Fund VIII	SS	Apr-98	Apr-16-98	800,000,000	100,000,000	8,956,981	0	8,956,981	0
28	FS Equity Partners III	LBO	Mar-93	Aug-26-93	559,800,000	60,000,000	59,170,463	18,696,492	40,473,971	23,787,101
29	FS Equity Partners IV	LBO	Oct-97	Dec-31-97	915,000,000	87,500,000	31,811,495	0	31,811,495	0
30	Golder, Thoma, Cressey III	SS	Dec-91	Dec-12-91	235,000,000	4,633,908	4,633,908	2,218,557	2,415,351	15,941,592
31	Golder, Thoma, Cressey IV	SS	Mar-93	Apr-06-93	312,000,000	35,000,000	34,562,500	12,814,203	21,748,297	31,162,317
32	Golder, Thoma, Cressey V	SS	Jul-96	Jul-26-96	521,000,000	40,000,000	33,800,000	106,404	33,693,596	791,228
33	InnoCal Fund	VC	Jan-93	Apr-1-93	75,800,000	75,000,000	58,700,000	5,277,639	53,422,361	6,957,352
34	InterWest Partners IV	VC	May-89	Jun-16-89	110,000,000	10,000,000	10,000,000	3,353,423	6,646,577	11,441,030
35	InterWest Partners V	VC	Apr-93	Jun-17-93	175,000,000	15,000,000	15,000,000	1,363,554	13,636,446	43,812,486
36	InterWest Partners VI	VC	Jun-96	Jun-27-96	175,000,000	15,000,000	10,800,000	0	10,800,000	0

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JANUARY 1999										
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			Approved	Date	Size	Commitment	Funded	Capital	Capital	Gain
37	Kelso Investment Advisors V	LBO	Jan-93	Dec-23-93	710,000,000	50,000,000	46,692,333	10,649,606	36,042,727	47,787,293
38	Kelso Investment Advisors VI	LBO	Feb-98	Mar-98	1,500,000,000	150,000,000	2,861,712	0	2,861,712	0
39	KKR 1996 Fund	LBO	Oct-96	Dec-20-96	6,012,000,000	300,000,000	128,433,979	0	128,433,979	1,277,530
40	Madison Dearborn	SS	Jun-92	Dec-18-92	550,000,000	50,000,000	48,160,749	10,449,657	37,711,092	25,149,674
41	Madison Dearborn II	SS	Apr-96	Jun-27-96	925,000,000	60,000,000	41,245,136	0	41,245,136	0
42	Madison Dearborn III	SS	Jan-99	Jan-26-99	2,000,000,000	300,000,000	0	0	0	0
43	Marlborough Capital	SS	Mar-91	Apr-01-91	70,700,000	10,000,000	9,873,150	5,012,655	4,860,495	3,738,885
44	Mayfield VII	VC	Nov-92	Dec-28-92	165,000,000	10,000,000	10,000,000	1,959,149	8,040,851	7,448,908
45	MC Venture Partners	VC	Dec-98	Dec-17-98	250,000,000	25,000,000	0	0	0	0
46	Media/Communications II	SS	Apr-90	Dec-20-90	167,000,000	30,000,000	30,000,000	16,833,550	13,166,450	39,901,873
47	Media/Communications III	SS	Dec-96	Dec-24-96	265,000,000	30,000,000	21,781,716	0	21,781,716	0
48	Mezzanine Lending Assoc III	SS	Feb-89	Mar-08-89	500,000,000	50,000,000	38,024,875	18,933,393	19,091,482	32,742,666
49	NEA V	VC	Mar-90	May-29-90	200,000,000	25,000,000	25,000,000	11,446,441	13,553,559	54,522,765
50	NEA VI	VC	Oct-93	Dec-22-93	230,000,000	35,000,000	35,000,000	4,647,017	30,352,983	19,465,631
51	NEA VII	VC	Nov-96	Nov-19-96	265,000,000	40,000,000	32,000,000	955,778	31,044,222	736,873
52	NEA VIII	VC	Jul-98	Sep-25-98	550,000,000	50,000,000	7,500,000	0	7,500,000	0
53	OCM Opportunities Fund II	SS	Sep-97	Oct-31-97	1,500,521,000	25,000,000	16,250,822	0	16,250,822	63,014
54	Penman Fund	LBO	May-93	Oct-05-94	88,700,000	8,339,215	5,555,544	550,282	5,005,262	170,803
55	Phildrew Ventures IV	LBO	Sep-95	Nov-13-95	257,000,000	20,000,000	17,231,459	3,121,095	14,110,364	2,237,716
56	Spectrum Equity Investors III	SS	Dec-98	Dec-17-98	650,000,000	65,000,000	3,575,000	0	3,575,000	0
57	Stonington Capital Appreciation	LBO	Sep-94	Dec-15-94	992,000,000	85,000,000	67,298,109	0	67,298,109	96,280
58	Summit Subordinated Debt Fund	SS	Feb-94	Mar-14-94	335,000,000	10,000,000	9,000,000	8,702,084	297,916	2,634,583
59	Summit Subordinated Debt Fund II	SS	Jan-97	Jan-31-97	141,400,000	20,000,000	8,000,000	1,180,626	6,819,374	610,033
60	Summit Ventures III	VC	Jan-92	Jan-23-92	279,200,000	15,000,000	13,500,000	10,106,292	3,393,708	28,970,440
61	Summit Ventures IV	VC	Jul-95	Jul-31-95	610,000,000	30,000,000	27,000,000	5,466,097	21,533,903	12,418,116
62	Summit Ventures V	VC	Feb-98	Feb-13-98	1,000,000,000	45,000,000	12,375,000	0	12,375,000	758
63	Syndicated Communications II	SS	Nov-89	Nov-01-90	35,000,000	7,037,039	7,037,039	4,445,680	2,591,359	5,183,781
64	TA/Advent VIII	VC	Oct-96	Nov-4-96	800,000,000	10,000,000	3,750,000	0	3,750,000	5,229
65	Thoma Cressey VI	SS	May-98	May-19-98	450,000,000	60,000,000	4,800,000	0	4,800,000	500
66	Thomas H. Lee Equity Fund III	LBO	Oct-95	Dec-28-95	1,345,000,000	100,000,000	69,654,618	30,566,088	39,088,530	32,575,730
67	Thomas H. Lee Equity Fund IV	LBO	Jan-98	Feb-09-98	3,450,000,000	150,000,000	39,860,512	0	39,860,512	3,390
68	Warburg, Pincus Investors	SS	Jun-89	Sep-27-89	1,775,000,000	100,000,000	100,000,000	79,443,528	20,556,472	44,836,960
69	Warburg, Pincus Ventures	SS	Jul-94	Nov-04-94	2,022,000,000	110,000,000	110,000,000	8,344,380	101,655,620	7,186,183
70	WCAS Debt II	SS	Sep-90	Oct 03-90	354,000,000	30,000,000	30,000,000	6,299,709	23,700,291	21,713,785
71	WCAS Debt III	SS	May-97	May-30-97	1,279,000,000	100,000,000	30,000,000	0	30,000,000	1,016,266
72	WCAS V	LBO	Dec-88	Jan-27-89	371,363,636	30,000,000	30,000,000	14,469,077	15,530,923	81,193,305

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PARTNERSHIP COMMITMENTS AND CAPITAL SUMMARIES										
JANUARY 1999										
	Partnerships	Type	Date STRS Approved	Closing Date	Fund Size	STRS Commitment	Amount Funded	Returned Capital	Net Invested Capital	Income & Gain
73	WCAS VI	LBO	Apr-93	May-12-93	604,000,000	50,000,000	50,000,040	7,273,778	42,726,262	20,674,444
74	WCAS VII	LBO	Sep-95	Oct-06-95	1,425,000,000	150,000,000	127,500,000	0	127,500,000	0
75	WCAS VIII	LBO	Jun-98	Jun-30-98	3,150,000,000	300,000,000	48,000,000	0	48,000,000	0
76	Whitney 1990	SS	Nov-90	Mar-28-91	136,400,000	15,000,000	16,617,765	7,613,858	9,003,907	21,867,053
					\$57,643,511,636	\$4,771,480,691	\$2,346,186,917	\$538,433,008	\$1,807,753,909	\$1,030,299,977
Co-Investments										
1	Bridge Financial Info. - WCAS VII	CI	Jul-96			30,000,000	30,000,000	0	30,000,000	0
2	Hines Holding - Madison Dearborn II	CI	Nov-96			17,000,000	17,000,000	17,000,000	0	3,842,198
						47,000,000	47,000,000	17,000,000	30,000,000	3,842,198
	Types: LBO (Leveraged Buyout)	Notes: #14 Commitment to Candover 1994 is 20 million British pounds.								
	VC (Venture Capital)	#15 Commitment to Candover 1997 is 84 million British pounds								
	SS (Special Situation)	#20 Commitment to CVC European Equity Partners is in US, equivalent ECU is 30 million.								
	CI (Co-Investment)	#23 Commitment to the ECI 5 Fund is 10 million British pounds								

Alternative Investment

**EXECUTIVE SUMMARY OF ACTION TAKEN  
UNDER DELEGATION OF AUTHORITY  
Madison Dearborn Capital Partners III, L.P.**

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**Action:** Commitment of \$300 million to Madison Dearborn Capital Partners III a follow-on limited partnership of approximately \$2 billion.

**Background:** Madison Dearborn has been identified as a Tier 1 partnership by STRS staff. STRS has current commitments in Madison Dearborn Capital Partners I and II, \$50 and \$60 million respectively.

**Analysis:** Madison Dearborn qualifies as a follow-on fund as identified in the Alternative Investments' policies.

The investment thesis is based on the experience, diversification and continuity of the management team, its high quality deal flow, its proven investment strategy, and the successful track record of the firm.

Madison Dearborn III's strategy to invest in a wide range of private equity investments: management buyouts, growth equity financings, recapitalizations, and acquisition-oriented financings provides a good fit in the STRS portfolio. Unlike other buyout funds in the portfolio, Madison Dearborn's strategy offers diversification through a range of investments.

Madison Dearborn's capital strategy is consistent with the targets and ranges which have been approved by the Investment Committee to invest 60% of the Alternative Investments portfolio in buyout limited partnerships.

**Policy compliance:** This decision complies with the portfolio's policies and procedures, which were approved on June 3, 1998 by the Investment Committee. A positive written recommendation by

the Alternative Investment's advisor and STRS' staff has been documented. This resulted after an investment analysis and due diligence was conducted in the manner as previously reviewed and approved by the Investment Committee.

**Recommendation:**

Staff recommends that STRS commit \$300 million to Madison Dearborn Capital Partners III, L.P. that represents approximately 15% of the total capitalization of the fund. STRS' commitment is subject to the successful negotiation of partnership terms and legal review.

**By:**

	Date	
Deborah Contini		
Investment Officer		

**Approved:**

	Date	
Réal Desrochers		
Director of Alternative Investments		

	Date	
Patrick Mitchell		
Chief Investment Officer		